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Issues: Cost of Service;
Revenue Apportionment
Witness: Kevin C. Higgins
Sponsoring Party: The Commercial Group
Type of Exhibit: Direct Testimony
Case No.: ER-2007-0002
Date Testimony: December 29, 2006
Prepared:

**BEFORE
THE MISSOURI PUBLIC SERVICE COMMISSION**

CASE NO. ER-2007-0002

Direct Testimony of Kevin C. Higgins

on behalf of

The Commercial Group

Cost-of-Service / Rate Design

December 29, 2006

Commercial
Group Exhibit No. 851
Date 3-21-07 Case No. ER-2007-
Reporter KF 0002

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DIRECT TESTIMONY OF KEVIN C. HIGGINS

Introduction

Q. Please state your name and business address.

A. Kevin C. Higgins, 215 South State Street, Suite 200, Salt Lake City, Utah,
84111.

Q. By whom are you employed and in what capacity?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies
is a private consulting firm specializing in economic and policy analysis
applicable to energy production, transportation, and consumption.

Q. On whose behalf are you testifying in this proceeding?

A. My testimony is being sponsored by The Commercial Group. The
Commercial Group is comprised of the Missouri locations of Lowe's Home
Centers, Inc.; Wal-Mart Stores East, LP; and J.C. Penney Corporation, Inc.
Collectively, the members of The Commercial Group purchase more than 236
million kWh annually from AmerenUE in Missouri, primarily on rate schedules
LGS and SPS.

**Q. Are you the same Kevin C. Higgins who pre-filed direct testimony in the
Revenue Requirement phase of this proceeding?**

A. Yes, I am.

Overview and Conclusions

Q. What is the purpose of your testimony in this phase of the proceeding?

1 A. My testimony addresses the topics of: (1) Class cost-of-service, and (2)
2 Revenue apportionment. As part of my testimony, I offer recommendations to the
3 Commission on these topics in support of a just and reasonable outcome.

4 **Q. What conclusions and recommendations do you offer based on your**
5 **analysis?**

6 A. I offer the following conclusions and recommendations:

7 (1) The cost-of-service methodologies employed by AmerenUE to allocate
8 jurisdictional costs to customer classes are widely recognized as valid approaches
9 and are appropriate for application in this proceeding. I recommend that the cost-
10 of-service methodologies proposed by the Company in this proceeding be
11 approved.

12 (2) The revenue apportionment, or rate spread, proposed by the Company in this
13 proceeding would result in large subsidies paid by the non-residential classes.
14 While some mitigation of the Company's requested rate increase for Residential
15 customers may be reasonable, the amount of the subsidy burden proposed by the
16 Company is inequitable and should be rejected. Instead, I recommend that
17 revenue be apportioned such that for any rate increase, the Residential class is
18 moved midway between the jurisdictional average percentage increase and the
19 Residential cost-of-service-based percentage increase. The remaining revenue
20 shortfall should be made up by applying an equal percentage increase above cost-
21 of-service to the remaining customer classes. To the extent that the revenue
22 requirement requested by the Company is reduced as a result of the Commission's
23 decision in this proceeding, then the revenue apportionment should be adjusted to

1 move rates more in line with cost-of-service. Specifically, I recommend that each
2 percentage point reduction in the Company's requested jurisdictional revenue
3 increase be applied uniformly to the percentage rate increase shown for each
4 customer class in the right-hand column of Table KCH-4, on page 11 of my
5 testimony.

6
7 **Class Cost-of-Service**

8 **Q. What is the purpose of cost-of-service analysis?**

9 A. Cost-of-service analysis is conducted to assist in determining appropriate
10 rates for each customer class. It involves the assignment of revenues, expenses,
11 and rate base to each customer class, and includes the following steps:

- 12 • Separating the utility's costs in accordance with the various *functions* of its
13 system (e.g., production, transmission, distribution);
- 14 • *Classifying* the utility's costs with respect to the manner in which they are
15 incurred by customers (e.g., customer-related costs, demand-related costs, and
16 energy-related costs); and
- 17 • *Allocating* responsibility for causing the utility's costs to the various customer
18 classes.

19 **Q. What methodologies are utilized by AmerenUE in allocating costs across
20 customer classes?**

21 A. AmerenUE's cost-of-service analysis is discussed in the direct testimonies
22 of William M. Warwick and Wilbon L. Cooper. To allocate production costs,
23 AmerenUE uses a variation of the "Average and Excess Demand" method, an

1 approach that is described at length in the National Association of Regulatory
2 Utility Commissioners (“NARUC”) Electric Utility Cost Allocation Manual. This
3 method allocates fixed production costs by allocating those costs based on a
4 combination of average demand (i.e., annual kilowatt-hours divided by 8760
5 hours) and the excess of class non-coincident peak over average demand. Based
6 on my experience in other proceedings, I am aware that the Average and Excess
7 Demand methodology has been approved for use both by the Salt River Project
8 (Arizona) and Public Service Company of Colorado.

9 To allocate transmission costs, AmerenUE employs the 12-Coincident-
10 Peak (“12-CP”) method, which allocates costs based on each customer class’
11 share of the jurisdictional peak demand for each of the twelve months of the year.
12 This approach properly recognizes that transmission costs are fundamentally
13 demand-related. The 12-CP method is frequently adopted by the Federal Energy
14 Regulatory Commission (“FERC”) in allocating transmission costs.

15 In allocating distribution-related costs in Accounts 364-369, AmerenUE
16 employs the zero-intercept methodology that is described in the NARUC Electric
17 Utility Cost Allocation Manual. This method identifies that portion of
18 distribution-related plant that is associated with a hypothetical no-load situation
19 and classifies such costs (appropriately) as customer-related. Remaining
20 distribution-related costs in these accounts are properly classified as demand-
21 related.

22 **Q. What is your assessment of AmerenUE’s approach to determining class cost-**
23 **of-service analysis?**

1 A. As a general proposition, the methodologies employed by AmerenUE to
2 allocate jurisdictional costs to customer classes are widely recognized as valid
3 approaches, and in my opinion, they are appropriate for application in this
4 proceeding. One suggested improvement for application in future cases would be
5 to allocate costs directly to the Lighting class, in contrast to the Company's
6 current approach of presuming that lighting revenues cover lighting costs.
7 However, as lighting revenues comprise only 1 percent of the jurisdictional
8 revenues, it is unlikely that this recommended change would alter cost allocation
9 for other classes in a material way. Consequently, I recommend that the cost-of-
10 service methodologies proposed by the Company in this proceeding be approved
11 by the Commission.

12

13 **Revenue Apportionment**

14 **Q. What general guidelines should be followed in apportioning revenue**
15 **requirements across customer classes?**

16 A. In determining revenue apportionment, or rate spread, it is important to
17 align rates with cost causation to the greatest extent practicable. Properly aligning
18 rates with the costs caused by each customer class is essential for ensuring
19 fairness, as it minimizes cross subsidies among customers. It also sends proper
20 price signals, which improves efficiency in resource utilization. For these reasons,
21 the results of the class cost-of-service analysis should be given very strong
22 weighting in guiding the proper revenue apportionment.

1 At the same time, dramatic price changes can be disruptive to customers.
2 For this reason, many regulatory authorities recognize a principle known as
3 “gradualism”, pursuant to which rate changes are implemented in a manner that
4 moves customer classes *toward* cost-of-service parity, subject to constraints that
5 limit the rate impact on any particular customer class. When employing this
6 principle, it is important to adopt a long-term strategy of continuing to move
7 toward cost causation in setting rates, and to avoid schemes that result in
8 permanent cross-subsidies from other customers.

9 **Q. What approach to revenue apportionment has AmerenUE proposed?**

10 A. As described in the direct testimony of Mr. Cooper, AmerenUE is
11 proposing an overall jurisdictional rate increase of 18.30 percent. At the same
12 time, the Company is recommending that the rate increase to the Residential class
13 be capped at 10 percent, even though the Company’s cost-of-service analysis
14 indicates that the Residential class warrants an increase of 26.81 percent (at the
15 Company’s overall requested revenue requirement). According to the Company’s
16 proposal, the ensuing revenue shortfall of \$143 million¹ would be made up by
17 imposing an additional rate increase on the remaining customer classes in
18 proportion to each class’ revenue requirement at an equalized return. That is, the
19 remaining classes would collectively be required to pay a subsidy of \$143 million
20 in order to fund the Company’s proposed 10 percent Residential rate cap. The
21 Company’s proposal is replicated in Schedule KCH-2.

¹ The \$143 million shortfall is calculated by taking the difference between the Residential rate increase of \$228 million that would be required at full cost-of-service and the \$85 million increase recommended by AmerenUE.

1 **Q. Can you give an example of how the proposed subsidy would be**
2 **implemented?**

3 A. Yes. At the Company's proposed overall revenue requirement, the Large
4 General Service ("LGS") class would receive a rate increase of 7.96 percent if the
5 increase were based on cost-of-service (i.e., equalized returns across classes). But
6 after applying the additional increase proposed by the Company to fund the
7 subsidy, the rate increase for the LGS class would grow to 20.27 percent – 12.31
8 percent above cost-of-service. Table KCH-3, below, compares the class rate
9 increases that would result from rate increases based on cost-of-service to the
10 class rate increases being proposed by the Company.

11 **Table KCH-3**
12 **Rate Increase by Class at AmerenUE Requested Revenue Requirements:**
13 **Cost-Based versus AmerenUE Proposal**
14

| Customer Class | Cost Based Revenue Change | AmerenUE Proposed Revenue Change | Deviation From Cost of Service |
|----------------------------|---------------------------|----------------------------------|--------------------------------|
| Residential | 26.81% | 10.00% | -16.81% |
| Small General Service | 11.15% | 23.83% | 12.68% |
| Large General Service | 7.96% | 20.27% | 12.31% |
| Small Primary Service | 11.03% | 23.69% | 12.66% |
| Large Primary Service | 28.56% | 43.22% | 14.66% |
| Large Transmission Service | 6.93% | 19.12% | 12.19% |
| Total | 18.30% | 18.30% | 0.00% |

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17 **Q. What is your assessment of the Company's proposal?**

18 A. In my view, AmerenUE's proposal to set the Residential increase
19 significantly below the jurisdictional average – and to set rates for all other
20 customer classes (except Lighting) more than 12 percent above cost-of-service in
21 order to fund the resulting shortfall – is grossly inequitable and should be rejected.

1 Gradualism provides for mitigation of rate impacts – and some mitigation of the
2 rate increase for the Residential class may be reasonable. However, the
3 Company’s proposal goes far beyond the bounds of reasonableness, as it would
4 apply the *lowest* rate increase of all to a customer class that – on a cost-of-service
5 basis – warrants an increase that is *significantly above* the jurisdictional average.
6 Such a proposition draws no guidance whatsoever from the principles of cost
7 causation, and consequently, fails to meet the most basic requirements of just and
8 reasonable ratemaking.

9 To illustrate this point, recall that the LGS class warrants a cost-based rate
10 increase of 7.96 percent. As discussed above, under the Company’s proposal this
11 customer class would receive an actual rate increase of 20.27 percent, which is
12 more than double the required increase for this class to pay full cost-of-service. At
13 the same time, the Residential class warrants a cost-based rate increase of 26.81
14 percent at the Company’s overall requested revenue requirement, but would
15 receive an actual rate increase of 10 percent – less than half the increase proposed
16 for LGS. Based on cost-of-service results, the LGS percentage increase *should* be
17 less than one-third the size of the Residential increase, but under the Company’s
18 proposal it would turn out to be more than double the Residential increase. This
19 result fails to move rates adequately toward cost-of-service and is patently
20 unreasonable.

21 **Q. Are there any possible exceptions in which you might agree that it would be**
22 **reasonable for a class that warrants an above-average increase to receive an**
23 **increase that is below the jurisdictional average?**

1 A. Such an exception might be defensible only if the utility is volunteering to
2 fund the subsidy itself. However, in this case, AmerenUE is making no such
3 offers. The Company's proposal for mitigating the rate impact on Residential
4 customers is limited to having other customers pay for it.

5 **Q. How does the Company defend its proposal to require non-residential**
6 **customers to pay such a large subsidy?**

7 A. AmerenUE witness Philip Hanser defends the Company's proposal by
8 asserting that non-residential customers may have the ability to pass along
9 underlying increases to their own customers, as well as having better access to
10 capital markets to finance any changes they may need to make to respond to
11 changes in energy prices.

12 **Q. What is your assessment of Mr. Hanser's argument?**

13 A. In my opinion, Mr. Hanser's revenue apportionment argument is highly
14 unorthodox, is not grounded in accepted ratemaking principles, and should be
15 rejected by the Commission. He appears to be arguing that rates should be set
16 based on the *perceived* ability of some customers to pass costs on to others, as
17 well as the *perceived* access some customers may have to capital markets.
18 Although Mr. Hanser lists in his testimony eight ratemaking principles from
19 Bonbright, one would be hard pressed to find these two suggested ratemaking
20 criteria among them. Instead, Mr. Hanser's argument would take ratemaking in a
21 new direction by setting rates based on criteria unrelated to cost, efficiency, or
22 stability. I would also note that Mr. Hanser's approach relies on certain
23 assumptions concerning the non-residential customer classes' access to capital

1 markets and ability to pass along increased energy costs, but Mr. Hansen's
2 testimony provides no evidence that these assumptions have any basis in fact.

3 In my twenty years of participation in the ratemaking process I cannot
4 recall a single instance in which rates were set higher for a customer class because
5 it was thought to have better access to capital markets or was believed to be able
6 to pass the cost increase on to others. When queried on this question in discovery,
7 Mr. Hanser could not provide any examples either. I strongly recommend that Mr.
8 Hanser's rationale be rejected in determining the appropriate revenue
9 apportionment in this proceeding.

10 **Q. What alternative approach to revenue apportionment do you recommend?**

11 A. I recommend that rates be set closer to cost-of-service, while providing
12 some mitigation for the Residential class. This objective can be accomplished by
13 setting the rate increase for the Residential class midway between the
14 jurisdictional average percentage increase and the Residential class' cost-of-
15 service-based percentage increase. The remaining shortfall would be made up by
16 applying an equal percentage increase above cost-of-service to the remaining
17 customer classes. This calculation is shown, using the Company's requested
18 revenue requirement, in Schedule KCH-3, and is compared to rate changes based
19 solely on cost-of-service as well as to the Company's proposal in Table KCH-4,
20 below.

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Table KCH-4
Rate Increase by Class at AmerenUE Requested Revenue Requirements:
Cost-Based vs. AmerenUE Proposal vs. Commercial Group Proposal

| Customer Class | Cost Based Revenue Change | AmerenUE Proposed Revenue Change | CG Proposed Revenue Change |
|----------------------------|---------------------------|----------------------------------|----------------------------|
| Residential | 26.81% | 10.00% | 22.56% |
| Small General Service | 11.15% | 23.83% | 14.38% |
| Large General Service | 7.96% | 20.27% | 11.19% |
| Small Primary Service | 11.03% | 23.69% | 14.26% |
| Large Primary Service | 28.56% | 43.22% | 31.78% |
| Large Transmission Service | 6.93% | 19.12% | 10.16% |
| Total | 18.30% | 18.30% | 18.30% |

5
6
7 **Q. Please explain the impact of your recommended revenue apportionment.**

8 A. At the Company's requested revenue requirement, my recommended
9 approach would set the Residential rate increase midway between the
10 jurisdictional average increase of 18.3 percent and the Residential cost-of-service-
11 based increase of 26.81 percent – for an increase of 22.56 percent. To fund the
12 cost of this mitigation, each remaining rate schedule would require an increase of
13 3.23 percentage points above its respective cost-of-service increase. So, for
14 example, the LGS class would receive an increase of 11.19 percent, which is
15 derived by adding 3.23 percentage points to the LGS cost-of-service-based
16 increase of 7.96 percent.

17 **Q. How should revenues be apportioned if the Commission reduces the allowed**
18 **revenue requirement to a level below that requested by AmerenUE?**

19 A. To the extent that the revenue requirement requested by the Company is
20 reduced as a result of the Commission's decision in this proceeding, then the
21 revenue apportionment should be adjusted to move rates more in line with cost-
22 of-service. Specifically, I recommend that each percentage point reduction in the

1 Company's requested jurisdictional revenue increase be applied uniformly to the
2 percentage rate increase shown for each customer class in the right-hand column
3 of Table KCH-4. This approach would move rates closer to cost-of-service as the
4 overall rate increase for each customer class falls.

5 **Q. Can you provide a simple example of how this proposal would work?**

6 A. Yes. If, for example, the Company's overall rate increase were reduced
7 from 18.3 percent to 10.3 percent, then the rate increase for each customer class
8 would be correspondingly reduced by 8.0 percentage points. Referring to Table
9 KCH-4, the Residential increase would be reduced from 22.56 percent to 14.56
10 percent, the Small General Service increase would be reduced from 14.38 percent
11 to 6.38 percent, and so on. In the event that the overall reduction is very
12 significant, the Commission may wish to constrain the extent to which individual
13 class rates may be reduced from current levels if overall rates are increased.

14 **Q. In the event the Commission wishes to provide even greater mitigation of**
15 **residential rate impacts than you are proposing, do you have any additional**
16 **recommendations?**

17 A. Yes. I believe that my proposal produces just and reasonable results.
18 However, if the Commission wishes to provide even greater mitigation than I am
19 proposing, I would recommend that the mitigation be constrained such that any
20 Residential rate increase is not set below the jurisdictional average percentage
21 increase. In general, no customer class that warrants a percentage rate increase
22 *above* the jurisdictional average based on cost-of-service results should receive a
23 rate increase that is *below* the jurisdictional average. Violating this decision rule

1 tends to perpetuate subsidies rather than move rates in the direction of cost-of-
2 service.

3 **Q. Have you calculated what revenue apportionment would result if the**
4 **Residential increase was set at the jurisdictional average?**

5 A. Yes. This calculation is shown in Schedule KCH-4. At the Company's
6 requested revenue requirement, it would require each of the non-residential
7 classes to pay rates that are an additional 6.46 percent above its respective cost-of-
8 service.

9 **Q. Does this conclude your direct testimony?**

10 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

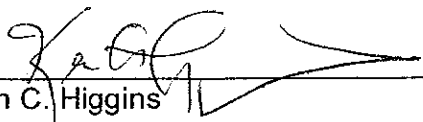
In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric) Case No. ER-2007-0002
Service Provided to Customers in the)
Company's Missouri Service Area.)

AFFIDAVIT OF KEVIN C. HIGGINS

STATE OF UTAH)
)
COUNTY OF SALT LAKE)

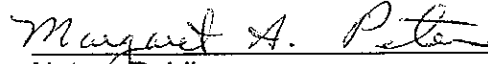
Kevin C. Higgins, being first duly sworn, deposes and states that:

1. He is a Principal with Energy Strategies, L.L.C., in Salt Lake City, Utah;
2. He is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Kevin C. Higgins;"
3. Said testimony was prepared by him and under his direction and supervision;
4. If inquiries were made as to the facts and schedules in said testimony he would respond as therein set forth; and
5. The aforesaid testimony and schedules are true and correct to the best of his knowledge, information and belief.



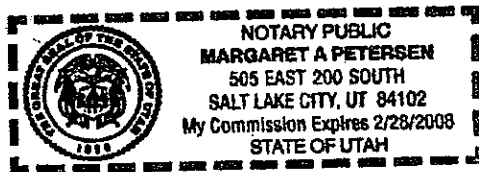
Kevin C. Higgins

Subscribed and sworn to or affirmed before me this ___ day of December, 2006,
by Kevin C. Higgins.



Notary Public

My Commission No.: 134523
My Commission Expires: 02-28-08
(SEAL)



**Revenue Change by Class at AmerenUE's Proposed Revenue Requirement :
Cost-of-Service versus AmerenUE's Proposal
(\$000s)**

| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) |
|----------|----------------------------|---------------------------|------------------------------|--------------------------|-----------------------------|-------------------------|---------------------------|------------------------------|-----------------------------|-------------------------------|----------------------------|
| Line No. | | Class COS Present Revenue | Allocated Rate Rev. Variance | Adjusted Present Revenue | Lighting Revenue Allocation | Other Operating Revenue | Revenue Req'd @ Equal ROR | Allocated Rate Rev. Variance | Adj. Rev. Req'd @ Equal ROR | Req'd Rev. Change @ Equal ROR | Percent Change @ Equal ROR |
| 1 | Residential | \$ 850,213 | \$ (11) | \$ 850,202 | \$ 13,515 | \$ 32,743 | \$ 1,078,160 | \$ (11) | \$ 1,078,149 | \$ 227,947 | 26.81% |
| 2 | Small General Service | \$ 226,710 | \$ (2) | \$ 226,708 | \$ 3,093 | \$ 6,417 | \$ 251,997 | \$ (2) | \$ 251,994 | \$ 25,286 | 11.15% |
| 3 | Large General Service | \$ 418,267 | \$ (4) | \$ 418,263 | \$ 5,129 | \$ 10,700 | \$ 451,572 | \$ (4) | \$ 451,568 | \$ 33,305 | 7.96% |
| 4 | Small Primary Service | \$ 182,440 | \$ (2) | \$ 182,438 | \$ 2,117 | \$ 4,656 | \$ 202,566 | \$ (2) | \$ 202,564 | \$ 20,126 | 11.03% |
| 5 | Large Primary Service | \$ 155,952 | \$ (2) | \$ 155,950 | \$ 2,024 | \$ 4,991 | \$ 200,486 | \$ (2) | \$ 200,484 | \$ 44,534 | 28.56% |
| 6 | Large Transmission Service | \$ 137,209 | \$ (1) | \$ 137,208 | \$ 1,231 | \$ 3,324 | \$ 146,718 | \$ (1) | \$ 146,717 | \$ 9,509 | 6.93% |
| 7 | Total | \$1,970,791 | \$ (22) | \$ 1,970,769 | \$ 27,111 | \$ 62,831 | \$ 2,331,499 | \$ (22) | \$ 2,331,476 | \$ 360,707 | 18.30% |

Data Source: Schedule WMW-E1, WMW-E2 & WLC-E7

Mitigated Revenue Spread with Residential Capped at Proposed 10% Increase; Subsidy Spread Pro Rata to Remaining Classes Based Upon Rev. Req'd @ Equal ROR

| Line No. | | Class COS Present Revenue | Allocated Rate Rev. Variance | Adjusted Present Revenue | Lighting Revenue Allocation | Other Operating Revenue | Req'd Rev. Change @ Equal ROR | Mitigation Adjustment | AmerenUE Proposed Target Revenue | AmerenUE Proposed Revenue Change | AmerenUE Proposed Percent Increase |
|----------|----------------------------|---------------------------|------------------------------|--------------------------|-----------------------------|-------------------------|-------------------------------|-----------------------|----------------------------------|----------------------------------|------------------------------------|
| 8 | Residential | \$ 850,213 | \$ (11) | \$ 850,202 | \$ 13,515 | \$ 32,743 | \$ 227,947 | \$ (142,927) | \$ 935,222 | \$ 85,020 | 10.00% |
| 9 | Small General Service | \$ 226,710 | \$ (2) | \$ 226,708 | \$ 3,093 | \$ 6,417 | \$ 25,286 | \$ 28,737 | \$ 280,731 | \$ 54,023 | 23.83% |
| 10 | Large General Service | \$ 418,267 | \$ (4) | \$ 418,263 | \$ 5,129 | \$ 10,700 | \$ 33,305 | \$ 51,496 | \$ 503,064 | \$ 84,801 | 20.27% |
| 11 | Small Primary Service | \$ 182,440 | \$ (2) | \$ 182,438 | \$ 2,117 | \$ 4,656 | \$ 20,126 | \$ 23,100 | \$ 225,664 | \$ 43,226 | 23.69% |
| 12 | Large Primary Service | \$ 155,952 | \$ (2) | \$ 155,950 | \$ 2,024 | \$ 4,991 | \$ 44,534 | \$ 22,863 | \$ 223,347 | \$ 67,397 | 43.22% |
| 13 | Large Transmission Service | \$ 137,209 | \$ (1) | \$ 137,208 | \$ 1,231 | \$ 3,324 | \$ 9,509 | \$ 16,731 | \$ 163,448 | \$ 26,240 | 19.12% |
| 14 | Total | \$1,970,791 | \$ (22) | \$ 1,970,769 | \$ 27,111 | \$ 62,831 | \$ 360,707 | \$ (0) | \$ 2,331,476 | \$ 360,707 | 18.30% |

Data Source: Schedule WLC-E7

**Revenue Change by Class at AmerenUE's Proposed Revenue Requirement :
Commercial Group Proposal
(\$000s)**

| | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) |
|----------|----------------------------|---------------------------|------------------------------|--------------------------|-----------------------------|-------------------------|---------------------------|------------------------------|-----------------------------|-------------------------------|----------------------------|
| Line No. | | Class COS Present Revenue | Allocated Rate Rev. Variance | Adjusted Present Revenue | Lighting Revenue Allocation | Other Operating Revenue | Revenue Req'd @ Equal ROR | Allocated Rate Rev. Variance | Adj. Rev. Req'd @ Equal ROR | Req'd Rev. Change @ Equal ROR | Percent Change @ Equal ROR |
| 1 | Residential | \$ 850,213 | \$ (11) | \$ 850,202 | \$ 13,515 | \$ 32,743 | \$ 1,078,160 | \$ (11) | \$ 1,078,149 | \$ 227,947 | 26.81% |
| 2 | Small General Service | \$ 226,710 | \$ (2) | \$ 226,708 | \$ 3,093 | \$ 6,417 | \$ 251,997 | \$ (2) | \$ 251,994 | \$ 25,286 | 11.15% |
| 3 | Large General Service | \$ 418,267 | \$ (4) | \$ 418,263 | \$ 5,129 | \$ 10,700 | \$ 451,572 | \$ (4) | \$ 451,568 | \$ 33,305 | 7.96% |
| 4 | Small Primary Service | \$ 182,440 | \$ (2) | \$ 182,438 | \$ 2,117 | \$ 4,656 | \$ 202,566 | \$ (2) | \$ 202,564 | \$ 20,126 | 11.03% |
| 5 | Large Primary Service | \$ 155,952 | \$ (2) | \$ 155,950 | \$ 2,024 | \$ 4,991 | \$ 200,486 | \$ (2) | \$ 200,484 | \$ 44,534 | 28.56% |
| 6 | Large Transmission Service | \$ 137,209 | \$ (1) | \$ 137,208 | \$ 1,231 | \$ 3,324 | \$ 146,718 | \$ (1) | \$ 146,717 | \$ 9,509 | 6.93% |
| 7 | Total | \$ 1,970,791 | \$ (22) | \$ 1,970,769 | \$ 27,111 | \$ 62,831 | \$ 2,331,499 | \$ (22) | \$ 2,331,476 | \$ 360,707 | 18.30% |

Data Source: Schedule WMW-E1, WMW-E2 & WLC-E7

Mitigated Revenue Spread with Residential Moved Halfway to Cost of Service; Subsidy Spread to Remaining Classes Based Upon Percent Change @ Equal ROR + Equal Subsidy Percent

Equal Subsidy Percent = 3.23%

| Line No. | | Class COS Present Revenue | Allocated Rate Rev. Variance | Adjusted Present Revenue | Lighting Revenue Allocation | Other Operating Revenue | Req'd Rev. Change @ Equal ROR | Mitigation Adjustment | CG Proposed Target Revenue | CG Proposed Revenue Change | CG Proposed Percent Increase |
|----------|----------------------------|---------------------------|------------------------------|--------------------------|-----------------------------|-------------------------|-------------------------------|-----------------------|----------------------------|----------------------------|------------------------------|
| 9 | Residential | \$ 850,213 | \$ (11) | \$ 850,202 | \$ 13,515 | \$ 32,743 | \$ 227,947 | \$ (36,168) | \$ 1,041,981 | \$ 191,779 | 22.55% |
| 10 | Small General Service | \$ 226,710 | \$ (2) | \$ 226,708 | \$ 3,093 | \$ 6,417 | \$ 25,286 | \$ 7,317 | \$ 259,311 | \$ 32,603 | 14.38% |
| 11 | Large General Service | \$ 418,267 | \$ (4) | \$ 418,263 | \$ 5,129 | \$ 10,700 | \$ 33,305 | \$ 13,500 | \$ 465,068 | \$ 46,805 | 11.19% |
| 12 | Small Primary Service | \$ 182,440 | \$ (2) | \$ 182,438 | \$ 2,117 | \$ 4,656 | \$ 20,126 | \$ 5,888 | \$ 208,452 | \$ 26,014 | 14.26% |
| 13 | Large Primary Service | \$ 155,952 | \$ (2) | \$ 155,950 | \$ 2,024 | \$ 4,991 | \$ 44,534 | \$ 5,034 | \$ 205,518 | \$ 49,568 | 31.78% |
| 14 | Large Transmission Service | \$ 137,209 | \$ (1) | \$ 137,208 | \$ 1,231 | \$ 3,324 | \$ 9,509 | \$ 4,429 | \$ 151,146 | \$ 13,938 | 10.16% |
| | Total | \$ 1,970,791 | \$ (22) | \$ 1,970,769 | \$ 27,111 | \$ 62,831 | \$ 360,707 | \$ 0 | \$ 2,331,476 | \$ 360,707 | 18.30% |

**Revenue Change by Class at AmerenUE's Proposed Revenue Requirement :
Assuming Residential Class Receives Jurisdictional Average Increase
(\$000s)**

| Line No. | (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h) | (i) | (j) | (k) |
|----------|----------------------------|----------------------------------|-------------------------------------|---------------------------------|------------------------------------|--------------------------------|----------------------------------|-------------------------------------|------------------------------------|--------------------------------------|-----------------------------------|
| | | <u>Class COS Present Revenue</u> | <u>Allocated Rate Rev. Variance</u> | <u>Adjusted Present Revenue</u> | <u>Lighting Revenue Allocation</u> | <u>Other Operating Revenue</u> | <u>Revenue Req'd @ Equal ROR</u> | <u>Allocated Rate Rev. Variance</u> | <u>Adj. Rev. Req'd @ Equal ROR</u> | <u>Req'd Rev. Change @ Equal ROR</u> | <u>Percent Change @ Equal ROR</u> |
| 1 | Residential | \$ 850,213 | \$ (11) | \$ 850,202 | \$ 13,515 | \$ 32,743 | \$ 1,078,160 | \$ (11) | \$ 1,078,149 | \$ 227,947 | 26.81% |
| 2 | Small General Service | \$ 226,710 | \$ (2) | \$ 226,708 | \$ 3,093 | \$ 6,417 | \$ 251,997 | \$ (2) | \$ 251,994 | \$ 25,286 | 11.15% |
| 3 | Large General Service | \$ 418,267 | \$ (4) | \$ 418,263 | \$ 5,129 | \$ 10,700 | \$ 451,572 | \$ (4) | \$ 451,568 | \$ 33,305 | 7.96% |
| 4 | Small Primary Service | \$ 182,440 | \$ (2) | \$ 182,438 | \$ 2,117 | \$ 4,656 | \$ 202,566 | \$ (2) | \$ 202,564 | \$ 20,126 | 11.03% |
| 5 | Large Primary Service | \$ 155,952 | \$ (2) | \$ 155,950 | \$ 2,024 | \$ 4,991 | \$ 200,486 | \$ (2) | \$ 200,484 | \$ 44,534 | 28.56% |
| 6 | Large Transmission Service | \$ 137,209 | \$ (1) | \$ 137,208 | \$ 1,231 | \$ 3,324 | \$ 146,718 | \$ (1) | \$ 146,717 | \$ 9,509 | 6.93% |
| 7 | Total | \$ 1,970,791 | \$ (22) | \$ 1,970,769 | \$ 27,111 | \$ 62,831 | \$ 2,331,499 | \$ (22) | \$ 2,331,476 | \$ 360,707 | 18.30% |

Data Source: Schedule WMW-E1, WMW-E2 & WLC-E7

Mitigated Revenue Spread with Residential Capped at Requested System Avg Increase - 18.3%; Subsidy Spread to Remaining Classes Based Upon Percent Change @ Equal ROR + Equal Subsidy Percent

| Line No. | | <u>Class COS Present Revenue</u> | <u>Allocated Rate Rev. Variance</u> | <u>Adjusted Present Revenue</u> | <u>Lighting Revenue Allocation</u> | <u>Other Operating Revenue</u> | <u>Req'd Rev. Change @ Equal ROR</u> | <u>Mitigation Adjustment</u> | <u>CG Proposed Target Revenue</u> | <u>CG Proposed Revenue Change</u> | <u>CG Proposed Percent Increase</u> |
|----------|----------------------------|----------------------------------|-------------------------------------|---------------------------------|------------------------------------|--------------------------------|--------------------------------------|------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|
| 8 | Residential | \$ 850,213 | \$ (11) | \$ 850,202 | \$ 13,515 | \$ 32,743 | \$ 227,947 | \$ (72,336) | \$ 1,005,813 | \$ 155,611 | 18.30% |
| 9 | Small General Service | \$ 226,710 | \$ (2) | \$ 226,708 | \$ 3,093 | \$ 6,417 | \$ 25,286 | \$ 14,635 | \$ 266,629 | \$ 39,921 | 17.61% |
| 10 | Large General Service | \$ 418,267 | \$ (4) | \$ 418,263 | \$ 5,129 | \$ 10,700 | \$ 33,305 | \$ 27,000 | \$ 478,568 | \$ 60,305 | 14.42% |
| 11 | Small Primary Service | \$ 182,440 | \$ (2) | \$ 182,438 | \$ 2,117 | \$ 4,656 | \$ 20,126 | \$ 11,777 | \$ 214,341 | \$ 31,903 | 17.49% |
| 12 | Large Primary Service | \$ 155,952 | \$ (2) | \$ 155,950 | \$ 2,024 | \$ 4,991 | \$ 44,534 | \$ 10,067 | \$ 210,551 | \$ 54,601 | 35.01% |
| 13 | Large Transmission Service | \$ 137,209 | \$ (1) | \$ 137,208 | \$ 1,231 | \$ 3,324 | \$ 9,509 | \$ 8,857 | \$ 155,574 | \$ 18,366 | 13.39% |
| 14 | Total | \$ 1,970,791 | \$ (22) | \$ 1,970,769 | \$ 27,111 | \$ 62,831 | \$ 360,707 | \$ (0) | \$ 2,331,476 | \$ 360,707 | 18.30% |

Data Source: Schedule WLC-E7